

PRESS ADVISORY

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Secretary of Defense William Perry and Colleen Preston, DUSD(AR) will hold a press briefing to announce the release of the Department of Defense's report on military specifications and standards. The briefing will be held Wednesday, June 29, 1994, at 2:00 p.m., in the temporary Pentagon press briefing room, 1E805.

For further information, contact Bev Baker, DDI, 703-695-0192.

DEFENSE DIALOG

SPECIAL DEFENSE DEPARTMENT
BRIEFING ON A PLAN TO STREAMLINE
THE PURCHASING PRACTICES
OF THE DEPARTMENT OF DEFENSE
BRIEFERS: SECRETARY OF DEFENSE
WILLIAM PERRY, COLLEEN PRESTON,
DEPUTY UNDERSECRETARY OF
DEFENSE FOR ACQUISITION REFORM
AND KATHLEEN DELASKI
WEDNESDAY, JUNE 29, 1994

MS. DELASKI: Hi, thank you for coming. This is our news conference to release a plan to streamline DOD's purchasing practices that we've been working on for some time here. We thank you for coming.

First we'll have presentations and take some questions, and at the end, we'll have some written materials to provide to you.

Dr. Perry has come down to give you an overview. Then Colleen Preston will give you more of the meat. She's the deputy undersecretary of defense for acquisition reform. She will give you -- walk you through some more of the specifics. And we also have here with us, I'm pleased to say, the three service acquisition executives. We have Gil Decker (sp) from Army, Nora Slatkin from Navy, and Clark Feister (sp) from the Air Force.

So with that I'll let Dr. Perry start off.

Thank you.

SEC. PERRY: Thank you very much, Kathleen. More than 100 years ago, Victor Hugo said that more powerful than the tread of mighty armies is an idea whose time has come, and integrating the defense industrial base into the national industrial base is an idea whose time has come. The Defense Department cannot afford the extra costs associated with keeping its industrial base isolated from the national base, and the country needs the benefits that it would otherwise lose as a result of the defense industrial base being kept out of this national base.

Now to make this change, the Defense

Department has to basically and fundamentally change the way it does its procurement. We have to buy more commercial products, we have to make greater use of commercial buying practices, and we have to use industrial specifications in place of military specifications.

No one should underestimate the difficulty of making a change that's fundamental; certainly I do not underestimate that difficulty. The changes -- it requires changes in deep-seated, long-term practices, it truly requires cultural changes in the way we do our business in acquisition.

Now I described three particular components of the change. The first two of those components -- buying more commercial products and using commercial buying practices -- require legislation for us to be able to really exploit those changes to their full -- to their full potential.

There are two bills in the Congress today -- one in the Senate, one in the House that have been passed -- that are about to go into conference. I expect that a law will be passed this summer resulting from the merging of those two bills, and I welcome this new legislation and acquisition reform. We will act vigorously to implement those changes as soon as they become law.

I want to take this opportunity to thank the congressmen who were the key to getting this legislation crafted -- that's Senator Nunn, and Thurmond, and Glenn, and Bingaman, Senator Roth, Congressman Dellums, Congressman Conyers and Congressman Sisisky -- all played a key role in getting the legislation to this point, and will continue to play a key role in putting it into a final bill that will go to the White House for signature.

Today I'm going to talk about one of those -- that third area of change, which is converting the MILSPECS over to industrial specifications. I have just this afternoon signed a directive to the civilian and military service leaders that directs them to use performance and commercial standards to

guide our purchases in lieu of the lengthy, detailed, military-unique specifications which we have come to call through the years MILSPECS. This is one of the most important actions that the defense department can take to meet the nation's military, economic and policy objectives. It will save substantial time and substantial money, and it will give the department quicker and easier access to state-of-the-art technology. It will broaden the base from which we can draw our suppliers. And this broader base will not only give us advanced technology we need, but equally importantly, the advanced manufacturing processes.

Colleen Preston, deputy undersecretary of defense for acquisition reform, will describe these changes to you in greater detail and take some of your questions. But before she does that, I would like to emphasize some of the more important aspects of this new acquisition philosophy.

The first point is that when we say we are going to rely on performance standards, we mean that instead of relying on MILSPECS to tell our contractors how to build something, we're going to tell them what we want it to do and then let them build it to achieve that desired result. For example, when we order jet engines, we'll tell our contractors how much thrust we want, how much durability we want, and let them decide how to build it. Through the use of commercial technology and off-the-shelf procurement, moving to performance specifications alone can save us up to \$700 million over the next two to four years from microelectronics in the Army's new training helicopter along.

Now let me just give you a very brief description of why those savings are there. First of all is when we take a technology that already exists in the commercial field and then decide to apply it to a military system, we have the front end costs, the start-up costs of adapting it to our military specifications. And secondly, in the production run of these, we're producing them only for military needs, which means we have much smaller production runs than available in the commercial field. And that inability to take account of the large production runs in the commercial field leads to very large differences in costs. I have seen

many examples of semiconductor chips, for example, where the commercial version cost a few dollars and where the military version cost \$10 or \$20. So we're not talking about small or incremental changes but really very large differences in costs to the government. And when you manufacture the difference between the \$2 chip and the \$10 to \$20 chip by the millions and millions of chips that we buy for our equipment, you can see that this really leads to very great savings.

There will still, of course, be situations where we will need to spell out how we want things built in detail. In those cases, we still will not rely on milspecs but rather on industrial specifications, the specifications used in industry. And in those situations where there is no acceptable industrial specification or for some reason they are not effective, then the use of milspecs will be authorized as a last resort, but it will require a special waiver.

In short, what we are doing is turning the present system upside down. Today a program manager is able to buy commercial products but he has to get a waiver to do it. He has to do it on an exceptional basis. In the future, he will be able to use milspecs but he will have to do it on an exceptional basis. He'll have to get a waiver in order to do that.

This process represents a major cultural change at the Pentagon. We have relied on milspecs for years. This made sense when the DOD set the standards because none existed, and when DOD and defense industry were the leaders in advanced technology. But in the fields of technology most important to the Defense Department today -- semiconductors, computers, software, telecommunications -- the technical leadership is in industry. And if we do not accept their standards, we are not only paying the extra price needed to adapt their equipment and their technology to our requirements, but we are also buying a generation or two delay in being able to get the equipment.

Let me give you one particular example. During Desert Storm, the Army needed a large number of global positioning system receivers, which tells the soldiers exactly where they are located on the battlefield. At that time the milspec receiver cost \$34,000, weighed 17 pounds, and it would have taken 18 months to

procure, which was a little out of the schedule that we had in mind on Desert Storm. We went to the commercial market. Instead of \$34,000, we bought one that cost \$1,300. Incidentally, today the same receiver in the commercial market sells for about \$800. Instead of weighing 17 pounds, it weighed three pounds.

This is just one example of where the products being made with commercial technology and commercial components are used with defense and used with great savings not only in money but in time and in performance, as well -- improvement in performance, as well.

We have tried to move to commercial products in the past but with very limited success. This time it is different. The action that we are taking today is different. It is not just -- it is a directive which calls for major change, but it is not just a directive from above. It is a clear, well-thought-out approach for reducing our reliance on MILSPECS. It addresses the impediments to success which we've faced in the past -- the training, adequate funding to manage the transition to the new system, and most importantly, a clear leadership commitment from myself and from the services.

Last August, I asked Colleen Preston, as the deputy undersecretary of defense, to put together a team -- she called it a process action team -- to recommend the changes in the MILSPEC system. This team was composed of about 40 experts, and the team was led by Dr. Daryl Griffin (sp). Where is Daryl? Daryl, could you recognize yourself, please -- from the Army Materiel Command. I want to take this opportunity to thank Daryl and his whole team for the outstanding work that they have done. And I also want to point out that the implementation of this program will be primarily through our three services, and that's why I asked our three service acquisition executives today. Each of them -- as they have come into their jobs, I have told them that I would consider a measure of success in their job the vigorous implementation of this new directive to move us forward because we are truly -- we are truly envisioning not just changes in the process -- the day-to-day process, the way we do things -- but changes

in the whole culture of how we buy our equipment.

Now I'd like to turn the podium over to Colleen Preston, and before I do that, I could take a few questions before I go.

Q: Mr. Secretary, the \$700 million figure that you cited, is that on just one program, or do you have an overall cost savings figure?

SEC. PERRY: That was an aggregate figure for electronics -- electronic subsystems alone. It -- so it's aggregated over a number of programs, but specialized in those particular components.

Q: Do you have an overall cost savings that you are hoping to aim for?

SEC. PERRY: I don't, but we will be -- we will be evolving those figures. But for this effort to be worth all -- for this project to be worth all the time and effort we are putting into it, it has to be -- the savings have to be measured in billions per year. And that's the goal and that's the objective. I want to back -- I don't want to give you the impression, though, that we were able to lay out a formula on a program-by-program basis which would give you a precise number.

Q: Can you expand a little bit on examples? For example, that we're not going to hear about \$800 toilet seats anymore, or that famous chocolate chip cookie recipe's going to go away, or things like that?

SEC. PERRY: I will say this, Steve, that the -- there were two systematic problems in our buying which led to those sort of stories. The one was the imposition of specifications which meant that when you wanted to buy a hammer, you couldn't just go down to the hardware store and buy it because it didn't meet the specs, to take a sort of ridiculous example. The other was the -- and so changing the specs deals with one aspect of that problem. That it does not require military specs deals with that one aspect of the problem.

The other aspect of the problem, though, is the buying practices, that if you are not -- if the buying officer is not allowed to go -- or is inhibited from simply going out to the market and buying and has to use Defense acquisition regulations to buy, then the amount of paperwork and the amount of overhead that is required in this process is so great that even

buying small items, there's a big overhead increment that's added to them. That's why this new legislation is so important, because it exempts all purchases under \$100,000 from the special Defense buying practices and allows us to use commercial buying practices.

Now, you might think that buys under \$100,000 aren't a very big deal to us, but we probably have more than 100,000 contracts a year we execute like that, and the overhead involved in that and the extra costs of imposing Defense buying practices is really very substantial.

Q: Do you have a number?

Q: Mr. Secretary --

SEC. PERRY: I wish I did, Steve. It's -- people will come up with the numbers on this, I just don't have any -- enough confidence in them to quote it. But I will say to you the same thing I said to Susanne. We're talking about billions a year, not millions. It's a big, big factor.

Yes.

Q: I apologize for being always so off the subject, but on the subject of Haiti, with the flood of Haitian refugees and the apparent lack of results from the diplomatic approach, does this tighten the pressure for some sort of military intervention in Haiti?

SEC. PERRY: Let me come back to that question and see if there are any other questions on the procurement issue.

Q: How do you -- how are you going to handle MILSPEC temperature requirements on electronic components? Do you know what percentage they constitute of the need, and if so will you have to get -- will you have to get an exemption each time? Will that clog up the system?

SEC. PERRY: We will -- we will try to find industrial specifications that are close enough to the temperature requirements that we have, and employ those instead of the MILSPEC. For example, if two different people are working in more or less the same environment that independently drop the specifications, it's unlikely they're going to have identical temperature limits. So it requires a little bit of willingness to accommodate the specs that somebody else wrote that deal with the problem you want to deal with. In most cases, I believe will be

able to find suitable industrial specifications. When we cannot and when the temperature specification is really important to the system, then we will have to have a waiver. And in that case, we will use the military. We are not throwing the military specs out. We're just making it harder to use them.

Yes?

Q: Mr. Secretary, would this program apply only to new developments? In other words, I'm thinking of products that are already out there in military use that have certain requirements that wouldn't be compatible with commercial --

SEC. PERRY: Two comments on that. The first is, in terms of new contracts, we have a grace period for the application of this, which is from two to six months, depending on what phase of the contract we're in. So we don't penalize people who just -- who are well in the process of a contract already. Secondly, in the case of systems that are in the field and which we're buying -- we're doing refits and modifications on, we would hope to apply these new regulations to them, because if I look at our procurement budget for the years ahead, an awful -- a big percentage of the money is going to be in mods and refits, and so to capture the benefits of this, we have to be able to apply them to those mods and refits.

Yes?

Q: Does this policy affect the commercial buying of products from overseas vendors in any way?

SEC. PERRY: That's a good question, and I don't want to give you an offhand answer to it. I'll need to look up precisely how that's going to apply to the overseas environment. Let me pause here and see if Colleen can give an answer to that without further reference.

MS. PRESTON: Do you mean purchases by the department of commercial items from overseas vendors? To the extent that we would be buying to a non-governmental or performance specification, it would be the same irrespective of the source. So if there -- it's going to be the same whether it's a foreign source or a U.S. source.

SEC. PERRY: Yes?

Q: Secretary Perry, this idea's been kicking around for years. I believe it goes back to your work on the Packard (sp) Commission.

SEC. PERRY: Earlier. Earlier.

Q: Why is it going to be different this time? Why is it -- what reason should we think this is really going to be implemented this time?

SEC. PERRY: Several reasons. But first of all let me say this is a tough job we're undertaking, and I'm -- it's very likely that there will be some disappointments and shortfalls as we execute it on a step-by-step basis. What we need to do is stick with it so we overcome those shortfalls, overcome those problems. So the first point -- with that in mind, the first point is we have to be prepared to spend political capital to make this happen, and it has to be high-value political capital. In this case, the president, the vice president, the secretary of defense, the deputy secretary of defense, the undersecretary of defense, the service acquisition executives, are all prepared to spend political capital to make this happen -- that situation, that confluence of people who really want to make this happen in those positions, as never before.

The second point is that we could -- I could, literally, have issued this directive last August, instead of now, and considered doing it. And what we did instead was we pooled together a team of experts in this question to look at all the impediments to making this plan happen, and try to bring, try to find ways of overcoming them and to bring all of the executing agencies on board. So we have worked the preparation for this problem very hard.

I think both of those factors are going to make a big difference this time. Nevertheless, it's going to be tough.

Yes?

Q: Mr. Secretary, have you given any thought to how this is going to affect standardization throughout the services and whether you'll lose anything by having to train your technicians and mechanics to handle a lot more different systems, so there will be a loss as well as a gain on this thing?

SEC. PERRY: There are several changes that are happening contemporaneously with this in maintenance of equipment, as the technology changes. The first is that our maintenance, with these modern electronic systems, is becoming more and more component subsystem replacement, rather than going in

and finding the broken tube or the broken semiconductor and changing it.

So, that whole process is changing and it's not just in the military it's changing; it's changing in industry as well. I mean, nobody for imagine, for example, taking a hand-held calculator and fixing it when it's broken; you simply replace it. And that same maintenance philosophy is being instilled in the services with this kind of equipment.

Secondly, we are making extensive use of commercial maintenance people, at air bases, on ships, who have the special background experience in maintaining the equipment that they have earlier -- their company earlier built.

Yes?

Q: Mr. Secretary, when would you expect to start saving these billions of dollars a year, given how tough you said this whole process is going to be?

SEC. PERRY: It's going to be, I'm sorry to say, a cost the first year, because instituting the new procedures will cost money. I am expecting and will be pushing hard to achieve real savings the second, third and fourth year in the future. I wish I could -- as I said, I wish I could estimate how many billions of dollars a year and how soon they will cut in, but I do expect the investment -- to go from investment to savings by the second year, and I expect those savings to be very substantial by the third or fourth year.

Q: Do you have any concerns about reliability; that is, going to these industrial specs, whether you're going to lose any kind of reliability out in the field?

SEC. PERRY: I believe we should be able to implement this in a way that we improve reliability, not hurt it. Concomitant with what we're doing here are improvements in reliability in commercial electronics. Were it not for that, it would not be possible to make this move. Ten years ago, no matter how much I wanted to do this, I really could not have implemented it because the specs we had then, which was the purpose of bringing reliability and ruggedness to the equipment, the comparable equipment in the commercial field did not have that ruggedness and reliability. So there have been very substantial improvements in both reliability and ruggedness in commercial electronics in the

last 10 years, and that, to a very great extent, has made this advance possible. In general, the reliability of commercial electronics equipment is as good as, if not better than in military. We're not prepared to compromise on reliability to make this move, and we don't believe we have to.

Yes?

Q: Mr. Secretary, isn't it true that if properly implemented this shift might actually put current defense contractors who have tooled up for MILSPEC at a competitive disadvantage vis-a-vis commercial suppliers, and what might you do to address that?

SEC. PERRY: Yes, I'm afraid that's right, it is true that those contractors who have put a dedicated MILSPEC facility, for example in semiconductors, will have a declining demand for their product because fewer and fewer of them will be used in this system. They will have the option then of either consolidating those activities to accommodate the smaller base, which means, sadly, some of them will be shutting down those particular facilities or converting them over to dealing with the new opportunities available to them. But in general, the answer is yes, that will be a problem.

Q: Would the department help those companies convert since the department's MILSPECs were why they spent the money to set up those specific factories in the first place?

SEC. PERRY: Start that again. I missed the first part.

Q: Will the department help those companies that decide to convert from -- (inaudible) -- dedicated MILSPEC facilities to, as you're saying, more commercial facilities since --

SEC. PERRY: Well, two things. First of all, those facilities, dedicated MILSPEC facilities that we need to keep we basically pay to keep, that is it's a high overhead operation. But for some space electronics, for example, for equipment that has to withstand nuclear radiations, we require special lines to do that and we will continue to maintain those. They will be much fewer in the future, though, than in the past.

Secondly, we have -- we do have some programs to help companies in defense conversion, and the most notable of these is

the Technology Reinvestment Program, but there are several others as well. None of these, though, are entitlements for the companies; that is, any company that wants to be involved in the program has to compete for them. And the fact that they happen to have a line no longer used doesn't guarantee them they will be able to get assistance or this kind of support.

Any other questions on this issue?

Q: Can you give us some feedback on your initial pilot programs in instituting commercial practices -- some of the pilot programs that have recently been launched doing this very kind of thing?

SEC. PERRY: Yeah, I think I will save that for Colleen, who has -- I'm already stealing too much of her thunder, so I will leave that question for her.

Now I want to give -- I want to come back to Jamie.

Q: Just a question of -- with the flood of Haitian refugees and the apparent lack of progress on the diplomatic front in Haiti, does that increase the pressure on the United States to intervene militarily in Haiti?

SEC. PERRY: Jamie, I don't accept the premise that there has been a failure of the diplomatic efforts. I think the pressure -- the pressure on the Haiti military rulers is increasing very substantially as a result of the increased sanctions that we've taken in the last few weeks, and I think we should give -- continue to believe that we should give some time to see that process work itself out, and I think we will see a very -- we may see some very substantial results from that.

The conventional wisdom in this town is that sanctions cannot be effective; that is, they cannot force governments to change their action. This example -- this may be a counterexample of that wisdom.

Yes?

Q: Mr. Secretary, are you concerned that the Pentagon as well as the United States, could become overwhelmed by what we're seeing in recent days in a surge of Haitians leaving, that you could soon run out of space to put Haitian migrants?

SEC. PERRY: I'm concerned that we -- that there are so many migrants leaving Haiti. We would -- have urged them -- the president

has urged them, I urged them, too -- to either stay in country or to go to the in-country processing facilities in country where they get exactly the same service that we will give them at the ship or in the Guantanamo processing centers. We have -- we have very substantial facilities at -- on the ship at Guantanamo. We're in the process of increasing the capacity at Guantanamo as we speak.

I might mention -- and -- so expanding that facility is a priority activity that is well underway right now and is moving at a very good pace. I think we will be able to keep up with the flow that's coming in.

Now incidentally, we received the first Haitian migrants at Guantanamo just about an hour ago. So they are starting to flow in to Guantanamo now, and we are prepared for them, and I think we will be able to keep abreast of the flow as it comes.

Q: Have you been able to reverse any of the flow and take Haitians back to Haiti who have not met the qualifications for asylum?

SEC. PERRY: That will be happening as soon as the processing is completed. It takes several days to process them. Those that are successfully processed are then conditioned to go to the United States. Those that are unsuccessfully processed are taken back to Haiti.

Q: What happened to the proposed flying radio station that was going to urge the Haitians to stay put? Is there a dispute with Mr. Aristide about that?

SEC. PERRY: That's still under consideration. Thank you very much.

MS. PRESTON: Well, the secretary has done such a brilliant job of briefing this issue that there is really very little left to tell you about, but I would like to just reiterate a couple of the issues that he talked about and some of the questions that you raised.

First of all, one thing we need to remember and I would like to reiterate again is there is a purpose for military specifications. And in some respects, that purpose has changed dramatically, and in some respects it hasn't. And if you keep that in mind, first of all, remember that, even up until a few years ago, we were leaders in technology. We set the standards in many instances, and today there

are still instances in which the Department of Defense sets the standards. Therefore, we will continue to need military specifications.

Secondly, one of the reasons that we use military specifications is to ensure that people are allowed to compete on an equal basis to sell to the U.S. government. And I think the perfect example of that is the chocolate chip specification. That was not designed by anyone in the Department of Defense or the brownie specification or anything else you want to refer to out of some idea that they were going to get a better cookie or a better brownie. It was done so that we could solicit bids from all companies that wanted to sell to our government and get an acceptable product, buying from the low bidder.

A third thing is that in the past we had to use military specifications to ensure the quality and reliability of products. And the secretary has alluded to this already. But clearly that has now changed. Now that we are moving and the industry has moved to quality processes, we are able to verify that processes to ensure quality are appropriate, and we no longer have the need to go in and dictate specifically how it is that they are going to weld an item or how it is that they actually have to proceed to build something, because we can go in and audit the processes that they use, the manufacturing processes, and then determine whether or not they are acceptable.

And finally, one of the other reasons we used MILSPECS and MIL standards is to ensure that we could in fact have the interoperability -- and someone asked the question already, and I think the secretary has given you a very good answer on that -- some of these problems we're not going to solve. We're clearly going to have instances where interoperability will be critical in the future and where we're not going to be able to just throw away a part or the maintenance will not be such that we can simply change out a black box or replace the product. So interoperability will be a concern in the future, but what we hope to do is, by establishing the preference for performance specifications, there are also a number of other actions that the process action team recommended that will deal with these issues, and I'd like to just highlight a few of them now.

The secretary mentioned that from now on, the services will be required to use performance specifications. We will not tell contractors how to build; we will tell them what we want.

Secondly, we will cancel or convert all manufacturing and management standards and convert them to performance or non-governmental standards. We're going to eliminate excessive contract requirements, and in all new solicitations, contractors will be provided incentives to come back and tell us where we can use a commercial spec or a non-governmental specification or standard, or for that matter, a performance specification or standard.

In the future, we are also going to allow specifications and standards to be listed only as references when it's essential to establish the technical requirements. And some of you may have heard of a practice called tiering, where we reference in the RFP one document, one specification or standard, and when you go to that specification or standard, it references 30 other specifications and standards. When you go to them, they each reference another 40 or 50, to the point where you can have 7 or 800 specifications called for when the initial document only laid out five or six. That will be prohibited beyond the first tier in the future.

Also, we are going to mandate the cancellation of obsolete documents that have had no procurement history for the past five years. In other words, if we have a specification on the books, and no one has actually utilized the item for which that specification was written, we're going to cancel it. If someone needs it in the future, we'll have to reinstate the MILSPEC if they want to use one. And in terms of what the secretary was referring to when he said this is going to cost us money up front, the reason that's going to cost us money is that we are going to rethink, and we have an action plan in the process action team's report, to rejuvenate the standardization process and to work with industry standards groups. That means we're going to have to put up people and money to work with them, to jointly come up with commercial standards rather than working on our own for government standards.

We are also going to be spending money on

training and education of our personnel and in developing and transitioning the existing military specifications that we want to, into new specs and standards.

We also will be working with the procuring organizations. And of course, the service acquisition executives, which the secretary mentioned, will be critical to this, as will our assistant deputy secretary for economic security and his staff and production resources who house what we now call the standards improvement executives and the standards improvement council, which is where all of this will come together from a DOD standpoint, and they will be working the implementation.

And finally, I just want to mention that we will be creating these standards improvement executives and they will be charged with trying to coordinate the efforts, but obviously the real work has to be done out in the services. And as the secretary mentioned, the clear difference in the way we approached this problem this time is that he did not issue an edict from on high. And I can't reiterate enough what a difference it makes to have a process action team put together that is composed of experts from the field, experts from within the services, and to have all three services agree that this is the right process to use, and to go into the detail that they did, the finite detail in this report, to get to incentives, to get to things like changing the acquisition process, that are really necessary if we are going to accomplish this effort in a way that we couldn't in the past.

Yes?

Q: What are your start-up costs?

MS. PRESTON: I don't believe that we have -- I don't -- we have calculated the start-up costs. I'm sorry, I don't remember exactly what we are projecting for this year because I'll have to look at it from starting at this point. But I can get you an answer on that later.

Yes?

Q: What are your targets a few years out for the breakdown between the percentage of Pentagon procurement that the MILSPECS represented that will be commercial specs?

MS. PRESTON: We don't have a target for what percentage will be MILSPEC and what

percentage will be commercial specifications. And I think that's really an inappropriate metric to use, and the reason I say that is that we need to be doing business the smartest way possible. In some instances it's going to be a MILSPEC. We have no idea how many instances those are. We have developed metrics within the process action team report to establish a baseline, but even a baseline is hard for us to figure out. We have no data system right now that can accurately tell us today how many commercial items we purchase. And to collect that information would be enormous. It's just not worth the effort. So we're looking towards improvement, but we don't want to get caught up in striving for a number that may or may not make any sense.

Q: But we don't even know right now what percentage of Pentagon purchases are milspec and what are commercial.

MS. PRESTON: I think we have a general idea. Brad, (Daryl ?), can you --

STAFF: (Off mike.)

Q: Which is what?

STAFF: It's commercial.

MS. PRESTON: Commercial; 17 or 18 percent commercial, and so the remaining 83 percent would be milspec standards. And let me just reiterate that there's a difference there. Don't forget there's a difference between performance standards and the specifications.

Yes?

Q: What's your best guess, then, as to where we'll be five years out? I mean, are we talking about a 50 percent or 60 percent shift, or just a few points shift?

MS. PRESTON: No. I would expect a very significant shift, for the reason that Dr. Perry alluded to, and that is we can no longer rely on a defense-unique industrial base. Unless we can take advantage of being able to get the state-of-the-art technology that we need in the commercial marketplace and from companies who are producing dual-use products, we're not going to make it. We simply cannot support a defense-unique industrial base, and we're not able to do that, and it's only going to get worse in the future. So if we cannot be buying commercial items, we're going to be buying basically nothing at that point.

Yes?

Q: I know it's still fairly early after the pilot programs have gotten started, but is there anything that's obvious at this point?

MS. PRESTON: No, actually I'd like to talk to you about the pilot programs because they have not been initiated other than the regulatory reforms that we were able to provide, and they were minimal in comparison to the legislative waivers that we've requested. The impediments for commercial companies selling to the government are tremendous. There are over 50 government-unique rules and regulations that commercial companies would have to change the way in which they do business to comply with in order to sell us a commercial product. Some companies are willing to do that. Others aren't. What we have asked for in the legislative package is relief from a great number of these laws so that we could get commercial products.

And let me reiterate that, of these pilot programs, six of them are major systems, and they are military-unique systems. For example, the JDAM (sp) program, which is a smart bomb, we expect that 85 percent of the electronics in that new package that's being put on there, the guidance system, would be commercial, but we cannot -- our contractor right now, whoever that may be, and they're going through the competition, will not be able to entice commercial companies to sell if they have to pass through all the government-unique rules and regulations that they have to abide by now. So until we get that legislative relief, we won't see a change in the procedures, and if we don't get it soon, it will be too late for those programs that we have already been working on.

Yes?

Q: Have you fixed in your own mind when it's too late for a program that's currently going through the acquisition process to actually have this shift retroactively applied? I mean, some things in Denval (ph) and some things in ENB (ph) -- presumably it's getting to the point where it's too late to switch over to commercial suppliers.

MS. PRESTON: No, actually, we have not fixed a point in time because it depends on the program. But it's going to be critical, and it already is critical. Obviously, where with --

for example JDAM (ph) we're already out on a competition and the same thing with the JPATS program, the Joint Primary Aircraft Trainer, which is a predominantly commercial aircraft or a non-developmental item. The contractors put together teams and have already started to put together their proposals -- and in one case have already submitted initial proposals. It's going to be very difficult for them, after the fact, to change their subcontractors at that point. So, we're unlikely to see any savings. We're not giving up on them yet, because we've just invested too much time and effort in this.

Q: I have a follow up question. What sort of concerns have the military users, the war fighters expressed about shifting over? I mean, I think -- for example, some of them might be concerned about the ease with which a potential enemy could countermeasure a lot of this stuff, because a lot of the industrial standards are pretty open -- everyone can see them, everyone can figure out how a system works. Have they expressed concerns like that to you?

MS. PRESTON: Well, actually, that is one of the key reasons that we are targeting acquisition reform in this area and one of the things that we generally start out with in saying is that the fact of the matter is that the technology is available in the world marketplace today. So we are being forced to re-think how we utilize and maintain our military technological superiority. We have many situations right now where technology, particularly in the electronics arena, and technology that are the critical building blocks that we use in every one of our major systems, is available to every country but ours, because the company refuses to sell to us under the terms and conditions we require for a government contractor.

So, it is a problem, and clearly the globalization of technology is a problem for us, but it's something we're going to have to deal with, whether or not we want to use MILSPECS or we want to use commercial. We have no choice at this point.

Yes?

Q: For a number of years, program managers have had the authority to use commercial standards with -- if they justified

it. Now you're basically turning it on its head, saying program managers you now -- to have to use commercial standards and you can use MILSPECS if you can now justify it. What fail-safe mechanism is going to be in there to be sure that a program manager puts in a MILSPEC when a MILSPEC is needed?

MS. PRESTON: I don't think we'll have a problem with that -- I mean -- think about what the program manager's incentive is and think about what the acquisition community's incentive is and that's why it's so difficult to change. If what I'm worried about out there in the field is whether or not I have an aircraft that I can keep at a 98 percent mission ready rate, because that aircraft may be leaving tomorrow to go to Bosnia, or maybe leaving tomorrow to go to Somalia, or some other place. My concern is about mission readiness and that's the way the troops in the field look at this issue. That's why it's so difficult for them to make the switch. If you were in their shoes, would you buy from the same person that you have bought from in the past that you know can give you a product that will work, or will you take a chance on a multi-million dollar aircraft buying a spare part from someone who you don't know? Some company that just was created two days ago?

That's the problem. I have no doubt in my mind that program managers, that users, that contracting officers will continue to consider mission requirements, and that will be upmost in their minds. What we have done, though, is to say, "Okay, you have to temper that, and we've got to give you the tools. If you're afraid to go out there to buy a commercial product because you think you have to buy from the low bidder, you're never going to buy a commercial product. If I tell you now clearly that you can do a best-value assessment and pick a vender that you know is reliable, you're more likely to switch to a new supplier." That's one of the changes that we're making.

Yes.

Q: Let me try to qualify something you said earlier. You said that the improved quality of manufacturing and products makes it easier to drop MILSPECS. Did you mean specifically in electronics or generally the whole gamut of products the Pentagon buys?

MS. PRESTON: I think generally in the whole gamut of products that we buy, yeah, quality practices in industry have changed dramatically over the last five years, but it's a difficult process for us, and it's one thing again that I'd like to say, it's not going to be easy for the department, because when we had quality processes that we outlined and then said every contractor had to conform to them, it's much easier to do an audit. Now we're going to have to train all our people to go out to industries and to companies who have totally different quality systems, and they're going to have to be able to recognize whether those quality systems are going to provide us the assurance that we need. There're going to be auditing processes that are different for every company, and that's going to be a challenge for us.

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IMMEDIATE RELEASE June 21, 1994

PERRY RELEASES REPORT ON STREAMLINING PURCHASING PRACTICES

Secretary of Defense William Perry today ordered dramatic revision and simplification of the way the Pentagon buys goods and services for military systems.

Perry said that acquisition reform has long been one of my top goals here at the Pentagon. We need access to state-of-the-art commercial technology and technology more rapidly and efficiently, and we need to cut costs and save taxpayers' dollars."

"Replacing, whenever and wherever we can, military unique specifications -- so-called 'milspecs' -- with commercial and performance standards will accomplish these goals," said Perry, "as well as fitting in with the administration's concepts of dual-use technology and support of our nation's industrial base by relying on the commercial marketplace."

The biggest savings, he said, will come from purchase of technologically-advanced components that are used as parts in larger military weapons and related systems. Removal of detailed military specifications that are imposed on federal contractors is a critical step in acquisition reform, Perry contended.

Perry simultaneously released the Department's report on military specifications and standards, entitled, 'Blueprint for Change'.

In August, 1993, the Secretary of Defense tasked Deputy Under Secretary of Defense for Acquisition Reform Colleen Preston to charter a 'Process Action Team' (PAT) to develop the plan to eliminate unnecessary and obsolete specifications to use performance specifications; to use commercial standards to the greatest extent practicable; to encourage industry to propose alternative solutions to military specifications and standards; and to cut paperwork. The PAT was chaired by Darold Griffin, former principal deputy of acquisition in the Army Materiel Command. All military services and appropriate defense agencies were represented on the Team.

Both Perry and Preston noted that the problem is being attacked across-the-board, rather than reviewing each of the approximately 31,000 milspecs one-at-a-time. Both also noted that some items cannot be purchased 'off-the-shelf' and require continued use of milspecs.

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The 'Blueprint for Change' lists 88 recommendations; Among the major suggestions:

- the adoption of performance-based standards or non-government specifications, unless no other alternative exists
- the elimination of excessive contract requirements
- implementation of new management tools
- inclusion of training and new management approaches to change existing behavior and long-established purchasing patterns.

In signing the memorandum to implement the major PAT recommendations, Perry lauded Congress for "taking a major step forward" on legislation to ease overall government purchasing procedures. The House Monday approved its version of the acquisition reform bill; the Senate passed its version earlier.

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